



Memorandum
From the Office of
Chairwoman Lea Márquez Peterson
Arizona Corporation Commission

1200 W. WASHINGTON
PHOENIX, ARIZONA
(602) 542-3625

TO: Docket Control

DATE: August 26, 2021

FROM: Office of Chairwoman Lea Márquez Peterson

SUBJECT: Disclosure of Ex Parte Communication Pursuant to A.A.C. § R14-3-113(D)

RE: Docket No. E-01345A-19-0236

Pursuant to A.A.C. § R14-3-113(C), no person shall make an oral or written communication, not on the public record, concerning the substantive merits of a contested proceeding to a commissioner. (A.A.C. § R14-3-113(C)(1)). If such communication is made, the commissioner shall not entertain or consider the communication. (A.A.C. § R14-3-113(C)(2)). If a commissioner receives such communication, the commissioner must decline to receive such communication and explain that the matter is pending for determination and that all such communications regarding it must be made on the public record. (A.A.C. § R14-3-113(D)(1)).

On August 18, 2021, the Chairwoman received an email and attachment from Mr. Paul Walker, which could be construed as trying to influence the Commission to vote a certain way based on perceptions of the regulatory climate in Arizona. It is an ex parte communication.

Pursuant to A.A.C. § R14-3-113(D), the Chairwoman is filing the communication, attachment, and her response pursuant to A.A.C. § R14-3-113(D)(1) in the docket for all parties to see. Any party affected by the communication will have an opportunity to rebut on the record any facts or contentions contained in the communication. (A.A.C. § R14-3-113(D)(2)).

The Chairwoman requests all parties respond to the contentions contained in the communication and file their respective responses in the docket for all parties to see. The Chairwoman requests Arizona Public Service Company show cause why its claim or interest in the proceeding, as it relates to the SCR disallowance and cost of debt and equity, should not be disregarded or otherwise adversely affected on account of the communication. (A.A.C. § R14-3-113(D)(3)).

From: [Lea Márquez Peterson](#)
To: [Paul Walker](#)
Cc: [Daniel Schwiebert](#)
Subject: RE: Regulatory Climate Update 9 (Ex Parte Communication)
Date: Thursday, August 26, 2021 8:11:00 AM
Attachments: [image002.png](#)

Mr. Walker,

The SCR disallowance, RUCO recommendations, and cost of debt and equity are currently pending before the Commission. All communications regarding these issues must be made on the public record. Pursuant to Ariz. Admin. Code R14-3-113, your communication will be filed in the docket so all parties have an opportunity to respond. Please do not send such communications any further. Thank you -

Lea Márquez Peterson, MBA
Chairwoman, Arizona Corporation Commission



From: Paul Walker <pwalker@theseusllc.net>
Sent: Wednesday, August 18, 2021 2:34 PM
To: Lea Márquez Peterson <LMarquezPeterson@azcc.gov>; Daniel Schwiebert <DPSchwiebert@azcc.gov>
Subject: Regulatory Climate Update 9

Every few months, I read thru all the analysts publications on Arizona – and every time I put into the attached report every sentence published about the AZ regulatory climate. To my great embarrassment, each time I do this I hope to find at least one positive thing written about our state’s investment climate – and I never do.

There is not one positive development in the attached. Not one.

Investors continue to pour disdain on the AZ commission and its regulatory climate. RUCO recommendations and “wins” are now being called out specifically as factors in the ongoing degradation of the ability to invest in a state in the middle of an historic drought, with a climate constrained future - but a state that also sees significant economic growth and opportunities.

The question really comes down to whether the Commissioners (and RUCO) want utility infrastructure to be funded affordably, or to continue down the current path with utilities downgraded, equity and debt costs rising and a nonstop stream of serial rate case filings.

Southwest Gas will file a rate case in Q4 – a year after its awful rate case order (empirically awful because the order led to downgrades); APS is now expected to have to file a rate case within a year after its decision becomes final – and to have to litigate extensively on the SCR disallowance.

Attacks on the regulatory construct (precedents, policy, and past decisions) seem unending and, perhaps, worsening. Again, all in the middle of a historic drought with the first-ever cut to Colorado River supplies and a gloomy and alarming set of new reports and findings from the IPCC.

Happy Wednesday.

Paul Walker
Theseus, LLC
www.theseusllc.net

Equity Analyst Reports on Arizona

Notes : All reports below, except those from Wolfe Research, are publicly available. Theseus LLC received approval from Wolfe Research to share the quotations below. Note: Steve Fleishman is ranked the #1 utility analyst in the U.S. by "Institutional Investor"

A glossary of technical terms is at the bottom of this report.

Firm	Analyst	Report Title	Remarks
Wells Fargo	Neil Kalton	"Downgrade FTS"	<p>August 17, 2021: "We have long been attracted to FTS's healthy long-term prospects... That said, we have become a bit more concerned with several developments... continued evidence that AZ's regulatory environment continues to deteriorate"</p>
Wells Fargo	Sarah Akers	"Construction Acquisition Nears Close as Regulatory Activity Heats Up"	<p>August 6, 2021: "SWX's COYL and VSP compliance filing seeking total recovery of \$74mm is pending at the ACC... While we take comfort that the company was directed to make the filing, we note that the AZ regulatory landscape has proven unpredictable... the company plans to file base rate case... in AZ in Q4."</p>
Wolfe Research	Steve Fleishman	"The Fleishman Daily"	<p>August 5, 2021: "Wow - the estimated impact from the ALJ recommendation is massive and would be a ~15% reduction to where consensus numbers are for next year... Yesterday, Comm. Olson is planning to offer amendments that would make the ALJ's recommendation even worse."</p>
			<p>August 5, 2021: "Impact of ALJ ROO quantified, would be huge... The punchline today was that PNW believes annual net income could decrease by up to \$90M or \$0.70-0.80/sh, if approved as is by the ACC. Not every day you see a ~15% earnings risk (vs prior cons) for a fully regulated utility.. For now, we assume that PNW will ultimately be granted recovery of the Four Corners SCR rate base and the related deferral balance... they were effectively EPA mandated and the plant has been a critical</p>

... component to maintaining reliability during the past two summers. Management said that the SCR disallowance accounted for about half of the potential \$90M net income decrease.

Wolfe Research Steve Fleischman "ROO'd awakening" "ACC totally unpredictable. The AZ Corporation Commission has proved unpredictable... So, it's entirely possible that the ROO is adopted as filed or that the ACC gives a final order that is even worse."

"Comm. Olson has already given notice that he will propose amendments to lower the ROE to 8.70% and reduce post test year plant. It's also worth noting that neighboring utility, TEP, recently concluded a rate case where its final order was worse than the ALJ ROO."

"Our PT moves \$.6 lower to \$74... We still ascribe a 15% discount to account for the earnings and regulatory risk."

"PNW: Lowering Estimates Ahead of Final Rate Case Outcome"

Wells Fargo Sarah Akers

August 5, 2021: "[T]he magnitude of the downside risk and the regulatory precedent set if the ALJ ROO is adopted are worrisome... We lower our price target... on a combination of downwardly revised estimates and an steeper applied discount to peers of 10-12%."

August 5, 2021: "More regulatory noise in AZ: In addition to the unconstructive [ROO], current Chairwoman Marquez Peterson released a letter earlier this week regarding the prudence of a PPA already in place (concerning Solana thermal solar plant). Additionally, Commissioner Olson released a letter requesting detailed customer impact analysis of rate increases and suggesting a reduction to the authorized ROE to 8.7%. The string of these opinions highlights the ongoing scrutiny of utility investments and contracts in AZ and the challenging environment... We such a backdrop, we believe that despite the attractive underlying economic picture, it would be difficult for the shares of PNW to re-rate meaningfully."

"PNW: Solid 2Q Results, ALJ and AZ Regulatory Dominate the Discussion"

KeyBanc Sophie Karp

August 5, 2021: "The ALJ's recommendations were far more onerous than our expectations heading into the waiting period...the latest regulatory challenges will

likely remain a hindrance around our thesis in the [near term].... Punitive ROO foreshadows a potentially protracted process."

"PNW -

Disappointing ROO

Guggenheim
Shahriar Poureza
Sets Up a
Challenging Path
Forward for APS"

"The ROO, which news most closely to RUCO's draconian recommendations could have up to a \$90mm impact on [net income]... with roughly half that impact tied to the SCR deferral and investment disallowments. As a reminder, the SCR was installed to meet emissions requirements... The SCR deferral currently totals ~\$75mm, with the book value of the asset ~\$230mm...the ROE proposed by the ALJ is equally as draconian, in our view."

UBS
Daniel Ford
"Commissioner
Decision Worse than
ALJ's Rec"

August 4, 2021: "Commissioner Olson who is a Republican proposed 3 changes to the PNW rate case proposed decision: 1) Use of an 8.7% allowed ROE versus the 9.16% recommended, 2) inclusion of only 6 months of post test year plant (not 12 months), and 3) Elimination of the authorization to fund new programs with the REAC (Renewable Energy Adjustment Clause)."

Wolfe Research
Steve Fleishman
"The Fleishman
Daily"

August 4, 2021: "Late yesterday, Commissioner Justin Olson submitted a letter to APS' rate case docket which said he was currently working on several amendments to the ALJ ROO. The amendments he plans to offer, at a minimum, include the following:"

"Reduction in ROE from 9.16% to 8.70% as advocated by RUCO"

"Reduction in post test year plant additons - 6 months versus the 12 months proposed"

"Elimination of the authorization to fund new programs with the REAC surcharge"

"Here we go again. Similar to TEP's rate case, Comm. Olson is going to offer punitive amendments to what was proposed in the ALJ ROO. And the ALJ ROO is already bad enough... Fortunately for TEP, most of his amendments weren't adopted. But the ACC's final order ended up being worse than the ALJ. We expect a lot more noise to come."

August 3, 2021: "A highly draconian outcome in our view, which we continue to parse through. The ROE proposed by the ALJ is similar to the TEP 9.15% despite APS' nuclear risk from Palo Verde.. The 4CPP SCR recommendation presents further surprise vs. our expectations as we had expected both it and OMP to be included."

Guggenheim
Shahriar Poureza
"The Daily
Transmission"

"appears to hew closer to RUCO recommendations"

"In our view, this is a very punitive recommendation and is materially worse than investor expectations who were already muted around this case... APS will be filing another rate case in the [near term]."

July 28, 2021: "The chair of the AZ Corp Commission (ACC) issued a letter stating her intention to ask Staff to address the.. APS PPA with the Solana solar facility.. We view this as highly consistent with Marques Peterson's focus on customer rates.. likely impact on future renewable development in the state as potentially injecting still more uncertainty into what is already considered an unfavorable jurisdiction."

Bank of America
**Julien Dumoulin-
Smith**

"PowerPoints"

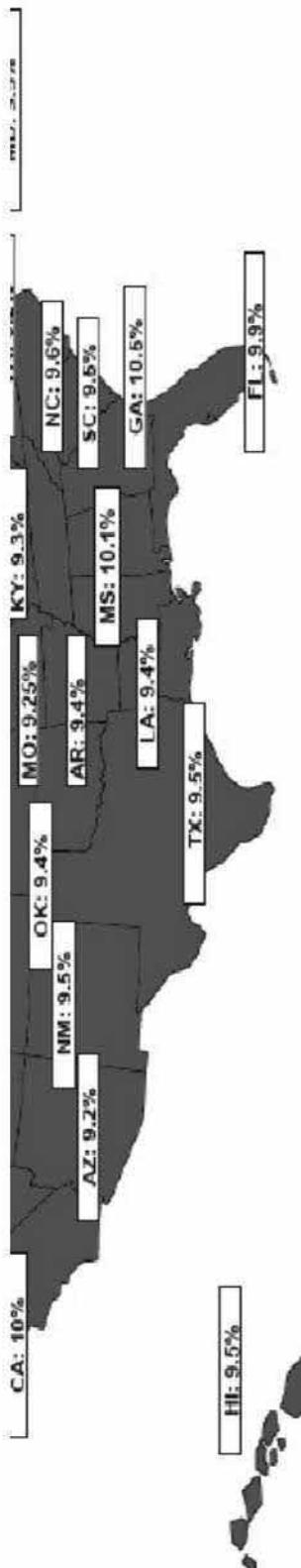
"America's Utilities: Regulatory Rundown" 21 June 2021

Americas Utilities

Goldman Sachs
Insoo Kim
Goldman Sachs

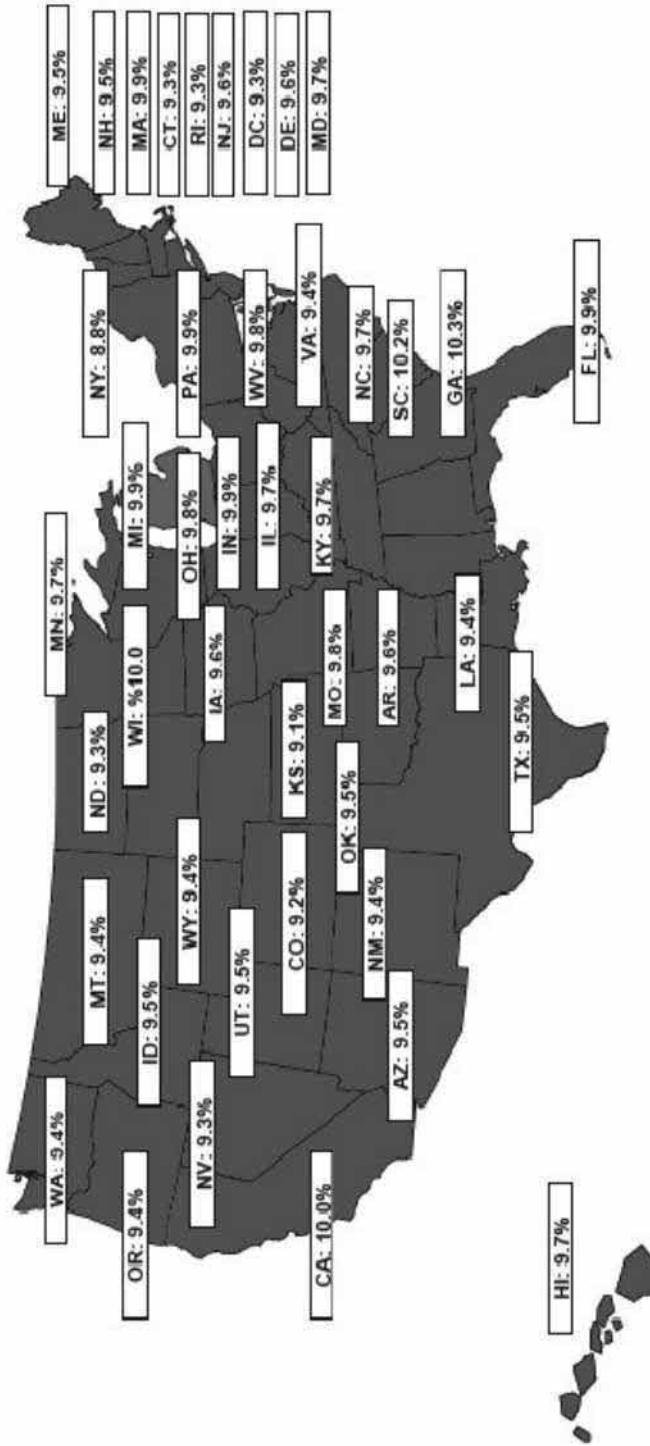
Exhibit 6: NY and IL have the lowest authorized electric ROEs, while CA, MS, and GA electric ROEs are at or above 10%
Latest authorized Electric distribution/voltically integrated ROEs by state





Source: Goldman Sachs Global Investment Research, S&P Global Market Intelligence

Exhibit 7: NY and KS have the lowest authorized gas RoEs, while GA and SC gas RoEs exceed 10%
Latest authorized Natural Gas distribution RoE's by state



Source: S&P Global Market Intelligence. Data compiled by Goldman Sachs Global Investment Research

Bank of America	Julien Dumoulin-Smith	SWX: Ratings Change - Move to Neutral	<i>June 30, 2021: "So why not get more constructive? We continue to view regulatory risks in AZ as prohibitive... We apply a 2.5x discount to AZ as we move the discount in line with in-state peer... we continue to view the state as one of the most challenged areas across U.S."</i>
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Bank of America	Julien Dumoulin-Smith	"Southwest Gas Holding Price Objective Change - AZ Overhang Continues; Can the Construct Improve?"	<i>June 14, 2021: "AZ overhang remains w/ PTYP discussions key to watch. We are.. Reiterating our Underperform rating given the regulatory overing.. We continue to perceive AZ as one of the most challenging regulatory constructs in the country with the majority of the ACC still seemingly negative on trackers and post-test year plant additions all together... Chairwoman Peterson penned a letter to stakeholders in the state posing questions on PTYP..."</i>
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Wolfe Research	Steve Fleishman	"The Fleishman Daily"	<i>"The discussion on PTYP is constructive, but we are hesitant to assume that anything positive will come of it given the Commission's recent decisions."</i>
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May 27, 2021: "After a few twists and turns, the ACC's new Clean Energy Rules now look to be across the finish line. It's good to see the Commission be able to reach a compromise on some of the contentious items, which was an effort led by Commissioners Tovar and O'Connor... The most important thing now for the utilities is getting some type of concurrent recovery mechanism for renewable investments. The effort thus far seems to be gaining little traction though."

Goldman Sachs *Insoo Kim*

"Management meetings highlight regulatory overhang, clean energy growth"

May 27, 2021: "We remain Neutral-rated on PNW as we see the AZ rate case overhang - including uncertainty on timely recovery of future renewable/storage investments - weighing on valuations despite robust growth potential longer-term driven by electric generation transformation."

Bank of America *Julian Dumoulin-Smith*

"Power Points"

May 27, 2021: The ACC "passed amended energy rules by a 3-2 vote in an open meeting held May 26... We view the latest outcome as likely earnings neutral in the near-term for PNW as the company's own decarbonization plans call for 100% carbon-free by 2050, and incrementally positive for the perception of regulatory risk in Arizona. Nonetheless, given the ACC's track record, passage of the energy rules as amended remains far from certain. We maintain our Underperform rating on PNW".

Bank of America *Julian Dumoulin-Smith*

"Power Points"

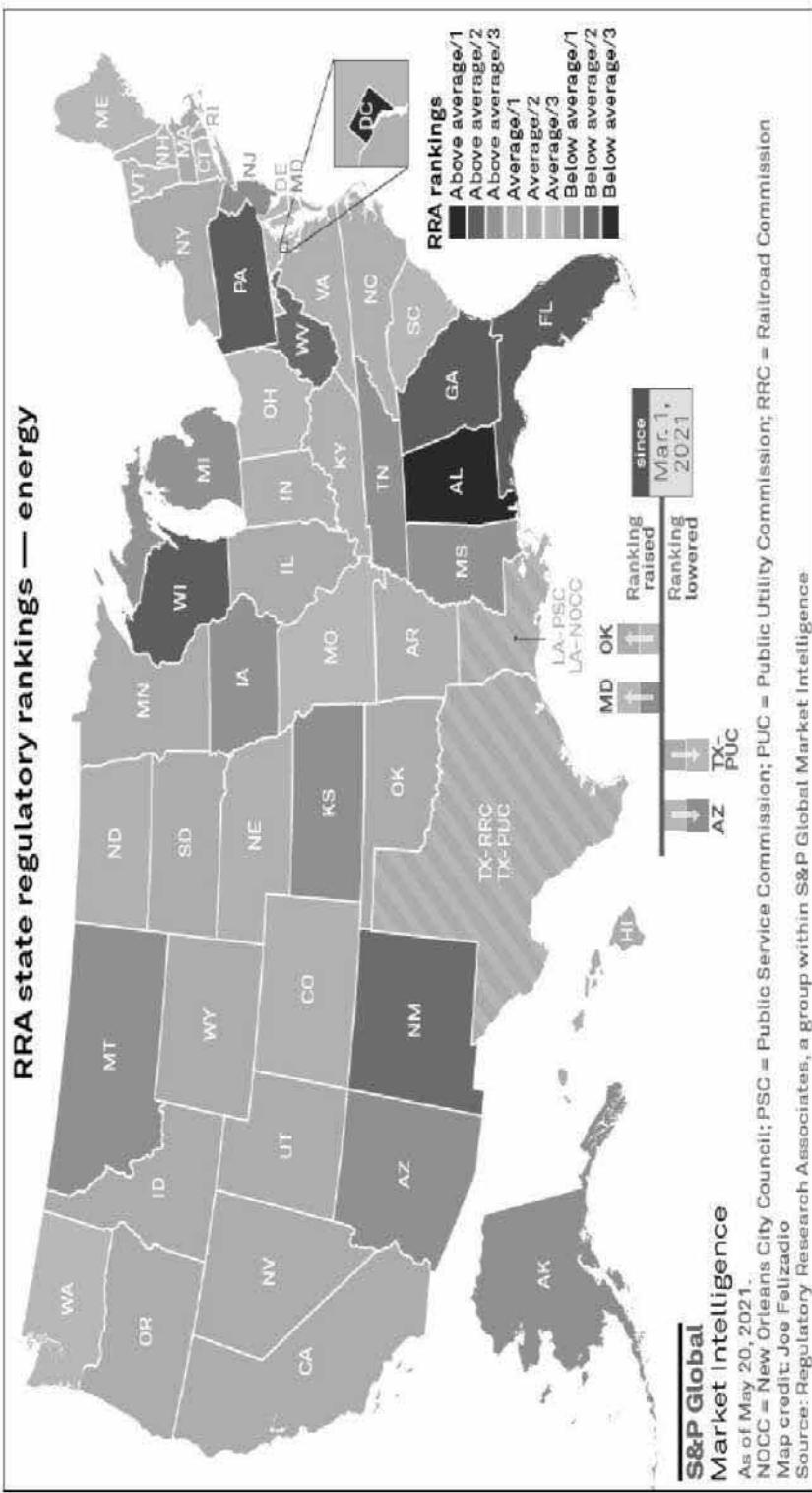
May 26, 2021: "Ultimately we do not view the outcome of the energy rules as having a material impact on PNW given the company's own decarbonization goals. Rather we view the continued back and forth on energy rules as potentially undermining confidence in the ACC's ability to provide steady and predictable utility regulation, with resulting negative impacts on utilities' cost of capital. In our view, Arizona remains a cautious jurisdiction from a regulatory perspective".

**S&P Global Market
Intelligence**

**State Regulatory
Evaluations**

May 25, 2021: "A Below Average ranking would indicate a less constructive, or higher-risk, regulatory climate from the investor viewpoint... A rating in the Average category would imply a relatively balanced approach... when it comes to adopting policies that impact investor and consumer interests.. Historically, RRA has viewed the Arizona regulatory environment as somewhat restrictive from an investor perspective. A recent court ruling upended decades of precedent... Recent enactment of legislation governing the appeals process for ACC decisions introduced yet another layer of uncertainty.. RRA is lowering the ranking of Arizona regulation to Below Average/1 from Average/3."

Lillian Fedenico



Bank of America **Julien Dumoulin-Smith** "AGA Conference Takes, Day 2"

May 21, 2021: Southwest Gas "SWX is gearing up for its tracker filing later this month. We continue to see Arizona as a particularly negative jurisdiction and remain cautious on SWX's ability to recover costs."

May 14, 2021: "Energy rules could see reconsideration... In terms of the broader

Bank of America

Julien Dumoulin-Smith
"Power Points"

regulatory backdrop in AZ we see the latest proposal as contributing to the perception that Arizona remains a below-average jurisdiction with an unpredictable commission. We note this is among the chief concerns around PNW shares".

Wells Fargo

Sarah Akers
"PNW: Downgrading to Equal Weight"

May 11, 2021: "We downgrade shares of PNW to Equal Weight from Overweight primarily reflecting further deterioration of the AZ regulatory environment over the past 6-12 months... Based on (1) ACC decisions on other cases including the removal of a pipe replacement rider mechanism for SWX and (2) a low likelihood that parties will reach a settlement, our confidence has waned... Our applied 7-9% discount solely reflects the below-average regulatory environment in AZ... In addition to employing a historical test year, AZ rate cases have lasted well beyond the typical 9-12 month cycle, for context, the current APS case was filed on 10/31/19... Absent the challenging regulatory climate, PNW actually has all the markings of a good story: clean energy growth opportunities, attractive service territory and a solid balance sheet."

Utilities

Figure of the Week: State Regulatory & Political Ratings

Our Call

Figure of the Week

Click image to enlarge in HTML view.

Equity Analyst(s)

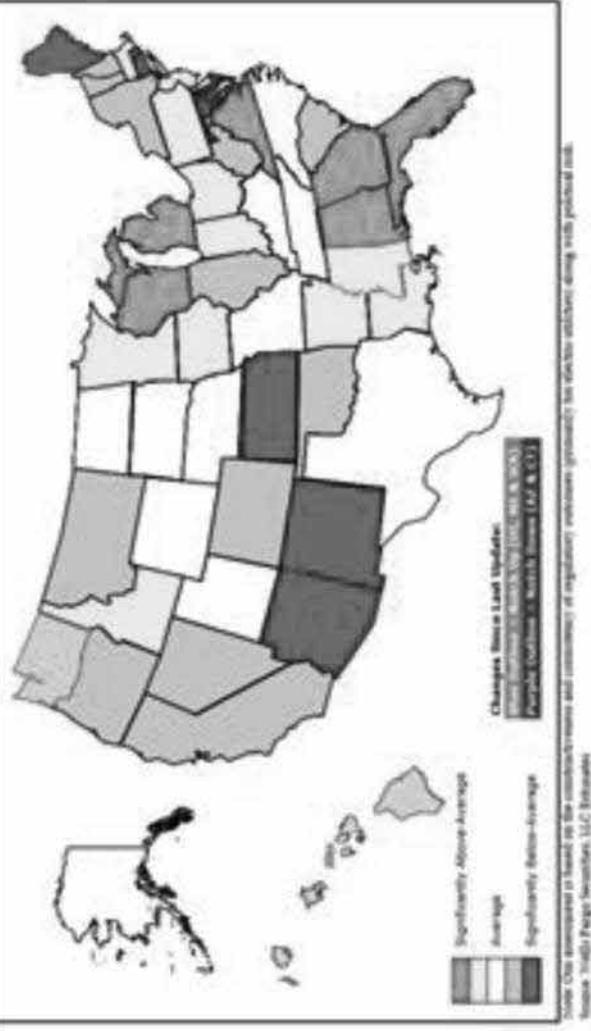
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Scott Tipton

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May 18, 2021: "Commissioner O'Connor's letter [on Clean Energy Rules] suggests he is willing to compromise on the linchpin amendment (making the targets goals rather than standards) that led to the down vote of the Clean Energy Rules earlier this month. This is a positive development".

Wolfe Research Steve Fleishman "The Fleishman Daily"

Bank of America Julien Dumoulin-Smith "Southwest Gas: Price Objective Change"

May 10, 2021: "We remain Underperform on SWX given the challenging regulatory backdrop in AZ."

May 6, 2021: "ACC reverses course and votes against its own energy rules; more

Wolfe Research **Steve Fleishman** *"The Fleishman Daily"*
In re Riesman
dysfunction... This is just further evidence of dysfunction within Arizona's regulatory climate."

Bank of America **Julien Dumoulin-Smith** "PNW: Price Objective Change"
"The Fleishman Daily"
May 6, 2021: "We continue to see the regulatory risk in AZ as elevated relative to other jurisdictions, and expect this level of risk to hand over shares for the foreseeable future, with the recent order denying lost fixed cost recovery skewing cautious against the broader regulatory backdrop."

Wolfe Research **Steve Fleishman** "The Fleishman Daily"
"The Fleishman Daily"
May 5, 2021: "We remain wary.. Particularly considering some recent negative datapoints out of the ACC (e.g., LFCR adjustor decision)... We maintain our Underperform rating and continue to target a 15% discount vs the group average given our bias toward a likely tough outcome in the rate case and view that AZ's regulatory environment is challenging generally."

April 21, 2021: "PNW - Comm. Kennedy docket letter questioning the use of adjustor mechanisms, requests discussion at next open meeting; bothersome... Another day, another bothersome disappointment out of the ACC. This follows last week's Open Meeting where the ACC voted 4-0 against approving PNW's requested \$11.8M increase for its LFCR adjustor mechanism (lost fixed cost recovery)... If the ACC were to eliminate any of PNW's existing adjustors that would create additional regulatory lag. It is also worth noting that this likely sends a negative signal for PNW's hopes of getting a renewable rider put in place during this rate case, and potentially in future cases."

**Siebert Williams
Shank & Co.**

**"PNW Raising
Rating on Valuation
Despite Reduced
Outlook from Q4"**

March 1, 2021: "PNW shares are trading at a material discount to peer electric utilities, in our view, with the stock trading at only 13.3x our 2022 estimate and a 4.75% indicated dividend yield, and peers trading closer to 16.5x 2022 estimates / 3.7%."

Wolfe Research **Steve Fleishman**
"Pinnacle West Capital... An outlier within utilities... and not in a good way"

February 24, 2021: "Capex and rate base projections lowered... The headline disappointment was 2021/2022 capex projections moving lower by \$150/\$225M...Further, within its capex plan, renewables spending was cut by \$300/\$400M in 2021/2022. This is very much contrary to what we have seen at other utilities...PNW's capex forecast does not assume that the company is successful in getting approval for its Advanced Energy Mechanism (i.e., renewable rider in the rate case. This is likely the primary reason for the capex reduction, because without timely recovery there would be big lag issues. We are lowering our PT by \$5 to \$75, using a 15% discount to our targeted 17x group multiple...We maintain our Underperform rating given the various regulatory overhangs."

February 24, 2021: "We note this is a cautious move though not over surprising, one

"which we attribute to the significant resistance to the Advanced Energy Mechanism (AEM) rider proposed by PNW which would have allowed for concurrent recovery of renewablespend... we note that aside from the results of RFPs the company had not announced specific utility-scale builds, unlike most in our coverage that had earmarked significant spending on clean generation... We also continue to expect that PNW will accelerate the filing of a subsequent rate case to include a renewable generation rider... likely in the 2022 timeframe... Maintain Underperform given the latest cautious update."

Bank of America **Julien Dumoulin-Smith**
"Pinnacle West First Take: Guiding down capex and rate base; AG settlement"

February 24, 2021: "At a time that many regulated peers are increasing capital spending plans, PNW is going the other direction... we view this as a negative signal... today's update, alone with continued concerns on AZ regulation detract from the positive... However, should the company be granted and enhanced recovery mechanism (currently proposing Advanced Energy Mechanism in rate case), which would allow for rate gradualism, the clean energy spend could accelerate."

Wells Fargo **Sarah Akers**
"PNW: CapEx Going in the Wrong Direction"

Evercore ISI **Durgesh Chopra**
"Pinnacle West: Rate Case Front and Center"

February 24, 2021: "All eyes on the rate case... Historically, the AZ commission has issued ROEs that are 25-50bp above Tucson's in acknowledgement of APS' higher risk given its ownership and operation of the Palo Verde [NGS]. As a reminder, Tucson was granted a 9.15% ROE an 0.2% return on fair value... Despite the historical ROE premium APS has received. things are more uncertain now because there are two new

commissioners... Importantly, APS is seeking regulatory approval for an adjustor mechanism to enable more timely recovery of sizable clean investments."

January 31, 2021: Southwest Gas "SWX: Downgrade to N[neutral] rating. We downgraded SWX to N from prior [Overweight] rating on account of regulatory risk following SWX's recent AZ rate case order. Modifications to the final rate order leave SWX exposed to greater day one regulatory lag, limit ongoing capital recovery following the rate case, and likely accelerate the company's next AZ rate case versus our prior assumptions. Given AZ is SWX's largest jurisdiction, representing ~53% of gas utility operating margin, we are increasingly cautious on the company's ability to manage through tightening AZ regulation without slowing growth. Re-allocation of capital to SWX's NV and CA operations, reshaping investment timing to more closely track rate case test years, and frequent rate filings remain options to mitigate these impacts."

"North American Utilities Weekly:
Utilities Outperform During Unwind"
JP Morgan Jeremy Tonet

Jan. 26, 2021: "Should HB 2248 / SB 1175 ultimately pass, we would view that as a step backward for the state and a disappointing signal for the pace of future renewable investments in the state."

Wolfe Research Steve Fleishman The Fleishman Daily

Jan. 19, 2021: "We are somewhat surprised that there isn't opposition across the board

at the ACC as [HB2248] would effectively reduce the Commission's authority in the state... Should HB 2248/SB 1175 ultimately pass, we would view that as a step backward for the state and a disappointing signal for the pace of future renewable investments in the state."

Wolfe Research **Steve Fleishman** *The Fleishman Daily*

Bank of America **Julien Dumoulin-Smith** *What the Recent AZ Cases Imply: we remain cautious*

Jan. 12, 2021: "Recent AZ rate decisions reinforce our cautious view. December saw two long-running Arizona rate cases reaching resolution... PNW's ongoing rate case will likely be decided in mid-year 2021 and we continue to view the outcome cautiously, particularly given that the SWX and FTS data points of late... Regulatory lag will likely persist".

Dec. 27, 2020: "TEP rate case reaches constructive end as spotlight continues on the AZ regulatory environment... We see the overall decision as positive versus more punitive modifications to local peer SWX's rate case".

JP Morgan **Jeremy Tonet** *North American Utilities Weekly*

Dec. 23, 2020: "Overall we see the order as incrementally negative for regulation in Arizona. The ACC passed Commissioner Olson's 1st and 2nd Amendments that limited know and reasonable updates from the test year forward during the rate case process. This has been a long standing procedure in AZ and changing that will increase regulatory lag... The Commission also voted 4-1 to approve Chairman Burns' Amendment 1 which created a negative fair value adjustment to the ROE to 9.15% from 9.35%... This is also a change versus precedent".

Dec. 23, 2020: "While it could have been worse (the ACC rejected Commissioner Olson's proposal to reduce the ROE to 8.97%), we view the final ROE of 9.15% as another modestly negative data point in AZ".

Dec. 22, 2020: "We continue to view this commission as highly unpredictable and negatively based, as evidenced by the commissioner amendments. Commissioner Olson's ROE recommendation would be among the lowest in the country. Commissioner Burns' amendment to move from accelerated depreciation to securitization is also bothersome. Commissioner Kennedy's complete removal of Four Corners and Springerville from rate base would be highly disappointing and could have a material impact. We estimate that roughly 4% of FTS' rate base is Arizona coal effectively covered by these two plants. Ultimately, adoption of the ALJ recommendation here would be a solid outcome, though at this point it is highly uncertain... For PNW, these amendments are perhaps even more bothersome given its history with the ACC and the negative readthroughs to APS' rate case... These recent datapoints from the ACC confirm our view that Staff's recommendation was a blue sky scenario and the eventual outcome is likely to be materially worse."

The Fleishman Daily

Steve Fleishman 12/22/20

Wolfe Research

Citi **Ryan Levine**

SWX Post Morem on AZ Rate Case - Expect more rate cases coming soon to a theatre near you in Arizona

Dec. 16, 2020: "The recent ALJ and commission decisions last week are largely negative for SWX as the post-test year period moved from 11 to 6 months, the VSP has been deleted, and COYL Phase 3 is also gone. Overall, this is perceived as a weakening of the regulatory construct... Furthermore, the decision to stop the VSP replacement will make it difficult to reduce emissions and invite new technologies in the LDC pipes to prepare for a hydrogen future... Commissioner Olson gained support of a 6-month PTYP, which was changed from prior rate case but worse than expected... Because of this, SWX will go in for another rate case likely in February 2021".

Barclays **Eric Beaumont**

"Pinnacle West... Revisiting the APS Rate Case"

Dec. 14, 2020: "A change in commission sentiment regarding the clean energy tracking mechanism could be a catalyst to the upside."

UBS **Aga Zmigrodzka**

"Southwest Gas... Top 2 Questions post AZ rate case decision"

Dec. 14, 2020: "Could SWX decrease its capex program?.. We may see some internal shifts as SWX pulls some planned capex from Arizona to other jurisdictions. Notably, in Top 2 Questions post Arizona SWX can file a rate case every year and... they may file as soon as 2H2021... Last week, we revised our estimates lower by 3% to \$4.26 and note that Consensus (per BBG) as of today has been revised down to ~\$4.10 down from ~\$4.42... would imply a P/E multiple of 15.5x, a 3.5x or 18% discount to pure play gas utilities."

Dec. 13, 2020: "Questions on AZ regulatory environment as spotlight turns to SWX, FTS, CN rate cases... Commission modifications to ALJ recommended decisions skew shareholder negative and these modifications in SWX's rate case materially lower the associated revenue requirement... the post -test year plant additions, VSP discontinuation, and COYL program limitations also negatively impact ongoing regulatory lag and the recovery profile of company capex... we note below-average ROEs authorized for SWX (~9.2%) or proposed.. for TEP (8.97% in place of 9.35% ALJ rec.).. these data points leave us cautious on local regulatory dynamics and the utility backdrop going forward."

JP Morgan **Jeremy Tonet**
"North American Utilities Weekly"

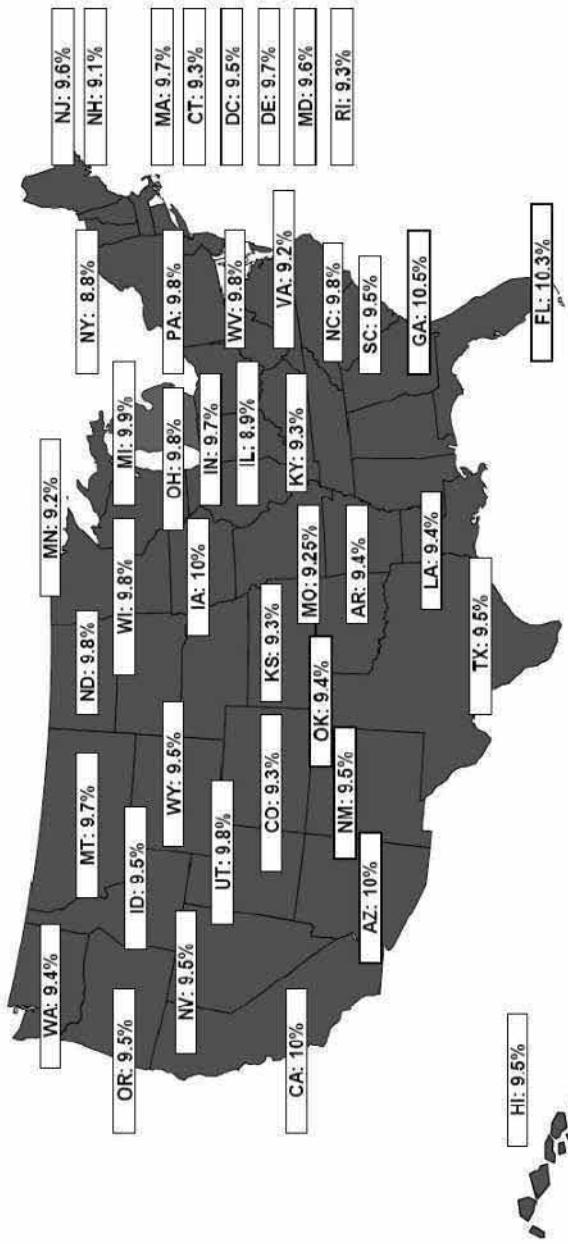
Dec. 11, 2020: "We remain positive on Utilities and see opportunities to invest in various themes, including water/renewables... The contentious Arizona rate case continues for Pinnacle West and remains a key overhang... we see the recent Southwest Gas rate case decision with lower ROE (9.1%) and certain disallowances as somewhat concerning."

Goldman Sachs **Insoo Kim**
"America's Utilities: Regulatory Rundown"

The following maps come from the Goldman Sachs report: "America's Utilities: Regulatory Rundown"

Goldman Sachs Americas Utilities

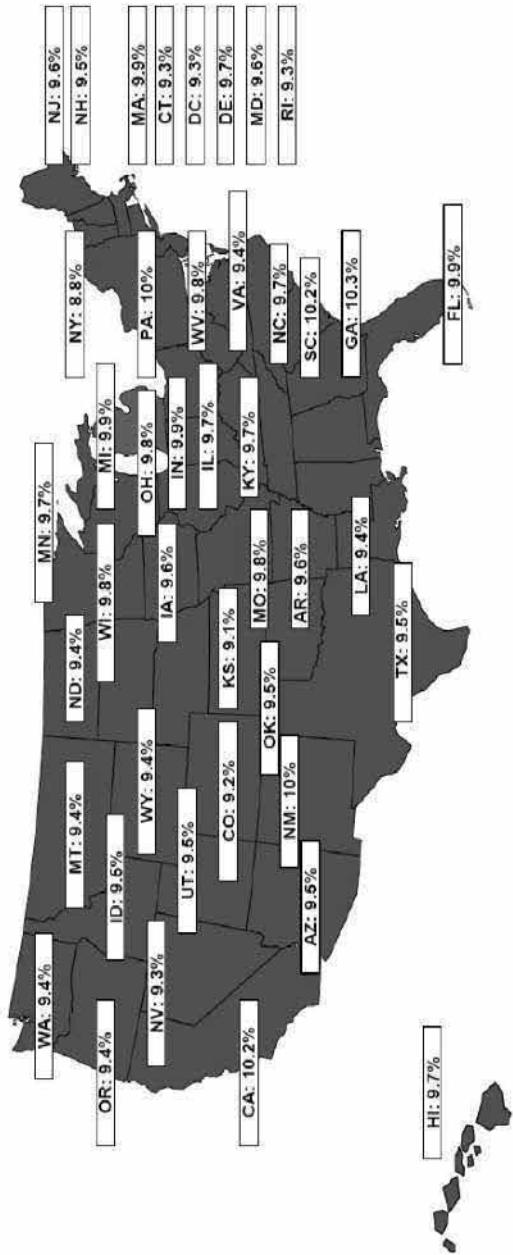
Exhibit 6: NY and IL have the lowest authorized electric ROEs, while FL and GA electric ROEs currently exceed 10%
Latest authorized Electric distribution/vertically integrated RoEs by state



For states with recent cases that did not specify an ROE level, we show the most recent available data

Source: S&P Global Market Intelligence, Data compiled by Goldman Sachs Global Investment Research

Exhibit 7: NY and KS have the lowest authorized gas ROEs, while GA and SC gas ROEs exceed 10%
Latest authorized Natural Gas distribution RoEs by state



For states with recent cases that did not specify an ROE level, we show the most recent available data

Source: S&P Global Market Intelligence, Data compiled by Goldman Sachs Global Investment Research

Dec. 10, 2020: "[T]he adopted 9.1% ROE is below US gas utility average of ~9.5% in 3Q20... The ACC also discontinued SWX's [VSP] program and imposed some limits on [COYL]... Per amendment proposed by Commissioner Lea Marquez Peterson, SWXX shouldn't replace [COYL] if the replacement is not in conjunction with other pipe replacement activity in the area or there is a leak. Discontinuation of VSP and limits on COYL could increase the regulatory lag which we view as a negative; however, SWX could also file more often for rate cases in AZ to accelerate capital recovery... We are lowering our PT to \$73 from \$78.. to reflect the higher risk related to recovery of the replacement capex and longer regulatory lag. Our new P/E multiple is 17x down from 18x."

UBS
Aga Zmigrodzka
"Southwest Gas Holdings Update on AZ Rate Case"

Dec. 9, 2020: "The proposed amendments by Commissioners Burns and Olson are bothersome, and exemplify the unpredictability of the commission. This indicates a negative read-through for in-state peers".

Wolfe Research

Steve Fleishman
"The Fleishman Daily"

Dec. 7, 2020: "[T]he most notable takeaway from Staff's surrebuttal testimony was its recommendation to deny PNW's proposed Advanced Energy Mechanism... Absent getting a renewable rider... PNW would become a serial rate case filer."

Wolfe Research

Steve Fleishman
"The Fleishman Daily"

Dec. 6, 2020: "PNW, while the renewable outlook is comellina, near-term concern

RBC Capital

Markets

Shelby Tucker "WATTS COOKING?"

"*remains at the regulatory level despite some changes at the commission.*"

Nov. 25, 2020: "PNW short rose 23% after a strong stock move post EEI. We remain concerned on AZ regulation... see recent recommendations for other AZ utilities in today's daily...[FORTIS] The AJ recommendation looks more or less in-line with expectations... there are minimal disallowances from rate base... It will be interesting to see if the ACC makes any material changes. Some might view this as a read-through for PNW, though the companies seem to be viewed differently by the current commission."

Nov. 18, 2020 - "Renewed risks for PNW after ACC letter... Arizona commissioner Lea Marquez Peterson has docketed a letter outlining a goal of retail rates in Arizona reaching \$0.09/kWh (2019 bundled resi rate per EIA is 13.6c/kWh)... rather than putting forward specific recommendations the letter directs parties to the PNW rate case to 'explore' a list of bullet points that are largely vague and unformed ("exploring new and innovative rate designs," etc.)... Given the timing of the letter, with PNW's rebuttal testimony filed and staff surrebuttal testimony due later in the week, we see an increasingly cautious set up at the rate case process... As the most obviously cautious data point, the letter cites precedent for PNW receiving rate decreases in two separate decisions in the 1990s as 'what's possible.' While we had previously raised our estimates for PNW... we stress that the setup heading into 2021's uncertain rate case outcome remains biased toward the downside."

Steve Fleishman
"The Fleishman
Daily"

**Julien Dumoulin-
Smith**
"Power Points: PNW
Letter"

Wolfe Research **Steve Fleishman** **"The Fleishman Daily"**

Nov. 18, 2020 - "PNW - Comm. Marquez Peterson asks parties to work together to achieve a rate decrease in APS rate case... Overall, the letter sounds negative particularly relative to the current Staff position. The one silver lining is that this could be the first sign of a desire for parties to engage in settlement talks... to date, every other commissioner has suggested a preference for a fully litigated rate case."

Guggenheim **Shahriar Pourreza** **"The Guggenheim Daily Transmission"**

Nov. 18, 2020 - "PNW - Marquez Peterson expresses desire for rate relief... Guggenheim takeaway: Marquez Peterson's letter is slightly perplexing to us given the magnitude of the ask (vs. APS' ~\$0.12) and the complexity of comparing to states like Texas and Virginia. The procedural delays could provide additional room for settlement discussions, albeit in a window that continues to shrink."

Credit Suisse **Michael Weinstein** **"PNW: Another Close One"**

Nov. 4, 2020 - "Recall that CEO Guldner is working on repairing the company's relationship with regulators as well as with customers... we also think that the utility's relationship with its regulators is undergoing a reset under new CEO Jeff Guldner."

"Pinnacle West

Capital Corp:

*Looking for fair AZ
rate case conclusion,
focus on fleet
transformation;
Buy"*

Goldman Sachs

Insoo Kim

Nov. 1, 2020 - "Looking for a fair rate case outcome, followed by a focus on clean energy transformation. Following a relatively constructive Staff testimony in the current AZ rate case... we view clean energy and generation fleet de-carbonization as a key focus for the state, which supports PNW's goal to achieve 65% clean energy generation by 2030."

Wolfe Research **Steve Fleishman**
"PNW Hot in, so hot
in here!"

Nov. 1, 2020 - "PNW has above average rate base growth near 8%, a strong balance sheet that has allowed for negligible equity needs, and attractive dividend growth of 6%... However, we believe the stock should trade at a discount given the rate case overhang and adverse regulatory environment in Arizona."

Evercore ISI **Durgesh Chopra**
"Another Beat on
the Heat"

Oct. 30, 2020 - "All eyes on the rate case... Staff and intervenor testimony was filed on Oct. 2 and we view it positively because Staff's recommendation is... In line with national averages in a challenging AZ jurisdiction.

Bank of America **Julien Dumoulin-Smith**
Downgrade to
Underperform: we
see muted path to
'21 growth

Oct. 12, 2020: "We downgrade shares of PNW to Underperform from Neutral... We attribute the early Oct rally to ACC Staff recommendations filed in the pending rate case... we re-examine our '21 outlook and see a meaningful level of earnings lag driven by Staff's proposed -\$25m net revenue reduction... Political risks are acute... We see AZ as a discount jurisdiction due to the myriad risk factors.. With a historical test year rate making scheme, we see PNW as likely to underearn its authorized ROE for much of the forecast period... PNW remains one of the most election-exposed names under our coverage".

Bank of America Julian Triscott BofA Utes: Observations

Sept. 22, 2020: "They're expecting [earnings-per-share] pressure for utes, who are in poor jurisdiction. Some believe the following cos fall into this category... PNW... Dedicated agree on some of the utes with poor regulatory relationships... PNW."

Goldman Sachs Brian Lee Americas Clean Technology: Solar: Wh

Sept. 22, 2020: "While we take no view on specific policy actions, we believe the potential extension of the federal solar (ITC)... could serve as a significant positive catalyst for US solar stocks if it were to move forward... a 5-year tax credit extension would benefit the entire sector... while among utilities seeking to develop more solar capacity... we see stocks like... PNW as being among the major beneficiaries... given plans to add significant new solar capacity. We also see customers as benefitting - as lower solar generation costs could lead to lower rate increases or even, if more expensive generation gets retired and solar replaces it, it could lead to rate neutral or rate decrease outcomes in certain service territories."

Sept. 18, 2020: "PNW, on the other hand, was down 11%, partly due to comments on its earnings call (8/6) that indicated difficulties with reaching a comprehensive settlement in its ongoing rate case... heading into the 2020 election. We see climate and tax policies as having the greatest potential influence on the sector, with the possibility for favorable impacts on many stocks in a Democrat sweep scenario. Likely key beneficiaries in this case would include... PNW... Forward prices in August were mixed in

'20, '21 & '22, 2020 prices were mostly up, led by PALO (up by ~45%). Sparks were mixed, up in PALO (by ~89%... 2021 prices were up, led by PALO (up ~76%. '22 prices were up, led by PALO (up ~17%)... '22 Sparks were mostly up, led by PALO (up ~33%...) We value (PNW) by applying a -13% discount regulated group P/E to our 2021 Utility EPS to account for regulatory uncertainty and potential for lower earnings power... The regulatory backdrop has become increasingly unstable... driving our -13% discount applied to the 2021 median peer group multiple... Risk Reward Themes Out of consensus: Negative Regulation: Negative Self-help: Positive... BULL CASE... 90bps regulatory lag. Apply in-line 2021 regulated group median P/E... BASE CASE... 90 bps regulatory lag. -13% discount applied to 2021 regulated group median P/E... BEAR CASE... 90 bps regulatory lag. -15% discount applied to 2021 regulated group median P/E."

Stephen Byrd
Monthly Meter
Reading

Sept. 17, 2020: "PNW is one of the top politically-exposed names in our coverage... PNW is a single-state utility operator, making its relationship with the [ACC] critical to the company's fortunes... PNW is one of the most uniquely politically-exposed companies in our coverage, a dynamic which we see reflected in [PNW] shares' discount to the peer group." Critically, the [Commission] staff's latest views suggest the removal of specific rider treatment at SWX [Southwest Gas]... Looking out to the long term, we caution that if any trackers are removed, it may drive SWX to pursue a more accelerated timeline for rate cases going forward given the prospects of regulatory lag.. This would likely ensure the company to file full rate cases more frequently in Arizona and make it more difficult to earn closer to its authorized ROEs in that jurisdiction."

Julien Dumoulin-Smith
deux

Bank of America

Guggenheim Shahriar Pourreza Daily Transmission

Sept. 4, 2020: "News12 has run a news segment and accompanying article assailing Director Abinah for "several controversial decisions he has made that appeared to favor APS." "Guggenheim takeaway: Based on our long coverage of APS and the ACC, this seems to us like unfair characterization over redactions and Staff's participation in the 2017 settlement. In addition to dealing with one of the worst headcount-to-workload ratios in the country, staff are now having their LinkedIn profiles shown on the evening news..."

Sept. 1, 2020: "In terms of the November election, utilities appear well-positioned to capitalize on the ongoing trend towards clean energy and are less exposed to potential higher corporate tax rates (should Biden win). Largely idiosyncratic catalysts drove August's leaders... and laggards... PNW - 12%... PNW Regulation "below average"

Between the Lines:
Wells Fargo Utility
Monthly

Neil Kalton

Wells Fargo

Wolfe Research Steve Fleishman
 "The Fleishman
 Daily"

July 7, 2020: "Yesterday, Comm. Kennedy sent a letter to fellow Comm. Justin Olson, criticizing him for "hijacking... the 6/18/20 open meeting concerning PNW's faulty rate tool... We believe this letter is yet another example of the combative nature of the Arizona Corporation Commission... commentary of a fellow commissioner is concerning and the opposite of what utility investors prefer to see (i.e., a stable regulatory environment.)"

Bank of America

June 29, 2020: "We remain overall concerned on how review of rate tool review within the rate case will be integrated... we see potential political headwinds given the current outlook for the 2020 elections. On balance, we expect overhang to persist... We remain below Street expectations and expect uncertainty over rate process to linger for months if not into 2021... potential / political outcomes given risks shifting toward downside... With shares among the most sharply debated among utilities given their [PNW] wide discount to peers, we reiterate our Neutral despite the stark discount embedded. We prefer other discounted entities which appear to offer a more enticing risk/reward proposition with improving regulation and largely intact EPS, such as PNM... We continue to see uncertain regulatory treatment as the principal risk around shares of PNW and continue to apply a -2.5x discount to our peer group multiple... We stress while shares remain among the cheapest across the sector for 'core' regulated utilities, we have yet to see meaningful datapoints of a pivot in the regulatory relationship between ACC and APS."

Julien Dumoulin-Smith Interim rates effort stalls, IRP promising, but how promising is outlook?

Wolfe Research **Steve Fleishman** **The Fleishman Daily** **May 28, 2020:** "PNW short jumped 55% potentially due to continued ACC uncertainty."

Wolfe Research **Steve Fleishman** **The Fleishman Daily:**
ACC rejects proposal
for COVID

May 22, 2020: "This is a headscratcher and yet another bothersome development for the Arizona regulatory environment... any and all operational savings were to be tracked and used as an offset to any of the costs incurred. The decision from the ACC makes Arizona somewhat of an outlier now as most others have moved to implement accounting deferrals to help address COVID related expenses."

Wolfe Research **Steve Fleishman** **Summer sizzle or COVID fizz?** **May 10, 2020:** "Our PT is now \$73, which includes a 15% discount to reflect uncertainty associated with the rate case and upcoming ACC election - Underperform."

Guggenheim **Sharriar Pourreza** **PNW: Fireside Chat** **April 9, 2020:** "the ACC, which despite its diminutive size (one of the smaller staffs in the country) retains one of the busiest schedules in the country." ...

March 23, 2020: "We do see risks ahead for PNW... Risks include: 1) rate case overhang driving uncertainty... and 4) uncertain regulatory backdrop and commissioner elections." ... "PNW stock is down 27% MTD and has underperformed large cap peers by ~7% MTD." ... "We continue to see greater-than-average risks ahead for PNW, but believe these risks are adequately priced in." ... "few levers for management to offset regulatory lag" ... "PNW operates a single jurisdiction utility with a challenging commission backdrop." ... "The regulatory backdrop has become increasingly unpredictable." ... "90 bps regulatory lag [discount to earnings]."

Morgan Stanley **Stephen Byrd**
Market Turmoil Creates Selective Opportunities

KeyBanc **Sophie Karp**
PNW: Turning Toward the Sun?

February 27, 2020: "PNW operates a moderately attractive utility in the somewhat challenged jurisdiction of Arizona... underpinned by enhanced political and regulatory uncertainty." ... "supportive economic trends but noisy political backdrop" ... "a highly politicized and contentious process over the years..." "The process has thus not been favorable for utility investors looking for safety and predictability" ... "Growth outlook in line with peers but regulatory lag drives non-linear shape." ... "regulatory conflicts, in combination with the state's lack of most contemporaneous recovery mechanisms, lead to non-linear earnings growth for PNW and other [Arizona] utilities." ... "At this juncture, the upcoming elections in November... is reason for caution given likely political tension and election uncertainty" ... "underperformance in the shares likely reflects political and regulatory uncertainty in AZ." ... "the commission structure leads to

heightened uncertainty and 2) a lack or modern recovery mechanisms exacerbates regulatory lag." ...

"the commission in recent history has experienced high turnover with little regulatory certainty." ... "which in AZ has created a heightened politicization of certain issues and generated a higher degree of risk for state utilities." ... "the ACC has shown little continuity in policy while the elections have been contentious." ... "has resulted in additional uncertainty, creating risk for timely assessment of more complex issues." ...

"AZ lacks several modern recovery mechanisms that other, more progressive jurisdictions enjoy - notably using historical test years and lacking FRPs, MRPs, formulaic ROEs, and riders/trackers for incentivized investment. With respect to ROE authorizations, the ACC has traditionally authorized returns at or slightly below prevailing national averages" ... "Notably, the ACC has not permitted utilities to earn a cash return on CWIP" ... "Regulatory conflicts, in combination with the state's lack of most contemporaneous recovery mechanisms, lead to non-linear earnings growth for PNW and other [Arizona] utilities. Regulatory lag has been a meaningful issue for utilities in the state due to long rate case lead times and the use of historical test years... This structure translates into non-linear EPS growth... and the lumpiness and higher dependence on rate case outcomes lead us to place a slight discount on the earnings growth outlook."

February 23, 2020: "been a historically challenging regulatory environment" ... "the key issue here is the regulatory uncertainty".

Evercore ISI	Greg Gordon	PNW Capex Up 16% Driven by Renewable Spend
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February 23, 2020: "Equity needed to support renewable capes; recovery method unclear... we remain wary of APS' rate case outcome and the regulatory environment in Arizona - Underperform." ... "we believe the stock should trade at a discount given the rate case overhang and adverse regulatory environment in Arizona." ... "PNW has one of the stronger balance sheets in the sector and operates in an economically robust service territory. That said, we are wary over the regulatory construct in Arizona... We apply a 10% discount to our group average P/E when valuing PNW to account for this risk."

Wolfe Research **Steve Fleishman** Capex oasis in the desert?

PNW: Positive
Momentum Heading
Into Busy ACC
Schedule

February 21, 2020: "we remain cautious amidst the ongoing rate case and a somewhat hostile commission" ... "We continue to believe the ACC has one of the densest workloads of any PUC in 2020."

Guggenheim

Sharriar
Pourreza

Pinnacle West Higher
Investment in
Arizona

February 21, 2020: "The 5% discount to the Regulated Utility P/E is -5% for EPS growth, -5% for regulation and +5% for group undervaluation."

UBS

Daniel Ford

PNW: Compelling Story Emerging Against Regulatory Clouds

February 21, 2020: "There are separate dockets examining generic regulatory policies, deregulation, and service termination rules." ... "regulatory uncertainty in AZ." ... "Shares trade at 14-16% discounts to Regulated Utility peers" ... "discount primarily reflecting regulatory uncertainty."

The Second Wave of Clean Energy - Part II: Who Can Ride the Wave?

January 29, 2020: "Although we see opportunity for upside, we remain UW given several overhangs and risks to the downside. The regulatory backdrop has become increasingly unpredictable... we see several key areas for downside... and few levers to offset regulatory lag."

Stephen Byrd
Note: Stephen Byrd has won multiple awards in "Institutional Investor" and StarMine rankings

January 14, 2020: "Regulatory backdrop appears unsupportive and rate case outcome is unclear" ... "We value [APS] by applying a -13% discount regulated group P/E... to account for regulatory uncertainty and the potential for lower earnings power." ... "The regulatory backdrop has become increasingly unpredictable." ... "few levers to offset regulatory lag." ... "50 bps regulatory lag [discount to earnings]" .

The 2019 recap; introducing the 2020
Wolfe Research

January 5, 2020: "regulatory and event risks became big issues for certain names PNW" ... "We are still cautious on AGR [Avangrid] and PNW - AGR due to a lot of execution risks and PNW due to a very tough case and regulator." ... "PNW was weak due to a tough regulatory environment in Arizona." ... "PNW was one of the worst performing regulated utilities in 2019. The year was marked by a deterioration of the regulatory environment in Arizona".

Glossary

bps	Basis points. A basis point is 1% of the number 1. So, there are 100 basis points in the number 1; and, 50bps is
EPS	Earnings Per Share: The portion of the company's profit that is allocated to each share. See P/E below - the EPS
FRPs	Formulaic Rate Plans track the utility's earnings AFTER the rate case. And, annually, change rates to ensure the
MRPs	Multi-year Rate Plans include rate increases in the years AFTER the rate case - so that the utility doesn't have to
MTC	Month To Date
P/E	Price Earnings ratio. The market price of the stock (P) divided by the annual earnings per share (E). Because stock
PT	Price Target. The price the analyst expects the stock to trade at, all things considered. Stocks are rarely at
PUC	Public Utility Commission(s) - each state has an agency tasked with regulating utilities. Most PUCs also set rates,
Regulatory Lag	The amount of time between when a utility files a rate case, and when rates are ordered. Arizona's regulatory
ROE	Return on Equity: The return shareholders expect to earn - distinct from the Cost of Debt (COD) which is the
Short	Short selling a stock means investors are betting on the share price going down. Shorting is accomplished thru
Underperform	The stock is expected to perform less well (share price) than its industry peers.
UW	Underweight: Means a fund owns less of a stock than is held in the benchmark index; or an analyst expecting a
	stock to underperform relative to its industry peers.